

**REPORT TO THE TWENTY-THIRD LEGISLATURE
STATE OF HAWAII
2005**

**PURSUANT TO SECTION 340E-33,
HAWAII REVISED STATUTES
RELATING TO THE
DRINKING WATER TREATMENT REVOLVING LOAN FUND
OF THE DEPARTMENT OF HEALTH**

**PREPARED BY:
STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL HEALTH ADMINISTRATION
ENVIRONMENTAL MANAGEMENT DIVISION
SAFE DRINKING WATER BRANCH
WASTEWATER BRANCH
DECEMBER 2004**

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EXECUTIVE SUMMARY

The State of Hawaii, Drinking Water Treatment Revolving Loan Fund (DWTRLF) program was established by the 1997 State Legislature as the result of the 1996 Federal amendments to the Safe Drinking Water Act. This program currently provides low interest loans to the four Counties for the construction of drinking water infrastructure projects which help protect the public health and environment of Hawaii.

For FY 2004, the federal government provided a capitalization grant of \$8.0 million, requiring a State match of 20% or \$1.6 million, which the state provided. To date, Hawaii's DWTRLF program has received \$58.7 million in federal funding and additional State contributions of \$11.7 million, or a total of \$70.4 million to support the drinking water administration and loan program.

During FY 2004, the DWTRLF program issued interim loan agreements totaling \$28.6 million to the Counties of Hawaii and Kauai and City and County of Honolulu and final loan agreements totaling \$2.4 million to the County of Kauai. The interim loan agreements mentioned are anticipated to be converted to final loan agreements in FY 2005.

The Environmental Protection Agency (EPA), Region 9, was very concerned with the slow pace in which loans were being processed and requested that the DWTRLF program commit to a shorter time period for loan issuance. Unfortunately, the deputy attorney general assigned to the DWTRLF program became concerned that existing language currently being used in the loan agreements were faulty, to the extent that it may not meet minimum federal requirements. This held up the processing for a number of interim and final loan agreements, resulting in the delay of millions of dollars being funded and lost interest to the program. The language issue was not yet settled by the end of the FY 2004, but will be resolved during the early part of FY 2005. Once these loan agreements are deemed acceptable to the Counties and State, the DWTRLF program should be up to speed with EPA's pace for issuing loans and the concern will be whether there will be sufficient funds to finance all future projects requesting assistance. *As of the date of the annual report, the matter was re-reviewed by the attorney general's office and the matter was resolved with very minor language changes to our model loan agreements.*

On a more positive note, the DWTRLF program has met its objectives of a) providing low interest loans to Hawaii's four Counties for the construction of drinking water infrastructure projects; b) operating the program in perpetuity and in such a manner that it is self sufficient; and c) complying with all EPA State Revolving Fund (SRF) program requirements including federal cross cutters, MBE/WBE requirements and standard accounting practices. This conclusion is supported by EPA's annual performance evaluation conducted in March 2004 and reported on May 28, 2004 as well as the latest (FY 2003) annual independent audit of the program by the accounting firm of Grant Thornton LLP.

In conclusion, the DWTRLF program is looking forward to an exciting FY 2005 as the program further progresses to the next stage on providing loans to the county public water systems.

OPERATIONS & ADMINISTRATION SECTION

A. INTRODUCTION

The Hawaii Drinking Water Treatment Revolving Loan Fund (DWTRLF) was established by the 1997 State Legislature in order to receive the federal capitalization grants as provided for by the Federal Safe Drinking Water Act of 1996 Amendments. The DWTRLF program is administered by the Safe Drinking Water Branch and Wastewater Branch of the Department of Health. The DWTRLF program's primary activities include the issuing of loans for the construction of drinking water infrastructure projects and the management and coordination with the Safe Drinking Water branch programs for the Set-Aside Programs as defined under the Safe Drinking Water Act of 1996 Amendments.

The DWTRLF program is also known as the Drinking Water Revolving Fund under Chapter 340E, Hawaii Revised Statutes (HRS) and the Drinking Water State Revolving Fund or DWSRF under Chapter 11-65, Hawaii Administrative Rules (HAR).

By helping local government entities improve and expand their drinking water infrastructure, the DWTRLF helps to protect the public's health and the environment of Hawaii. Equally important, the DWTRLF Program plays a vital role in the economic development and vitality of Hawaii's communities.

Chart 1 illustrates the dollar volume of loans that the DWTRLF Program has made per state fiscal year:

Chart 1

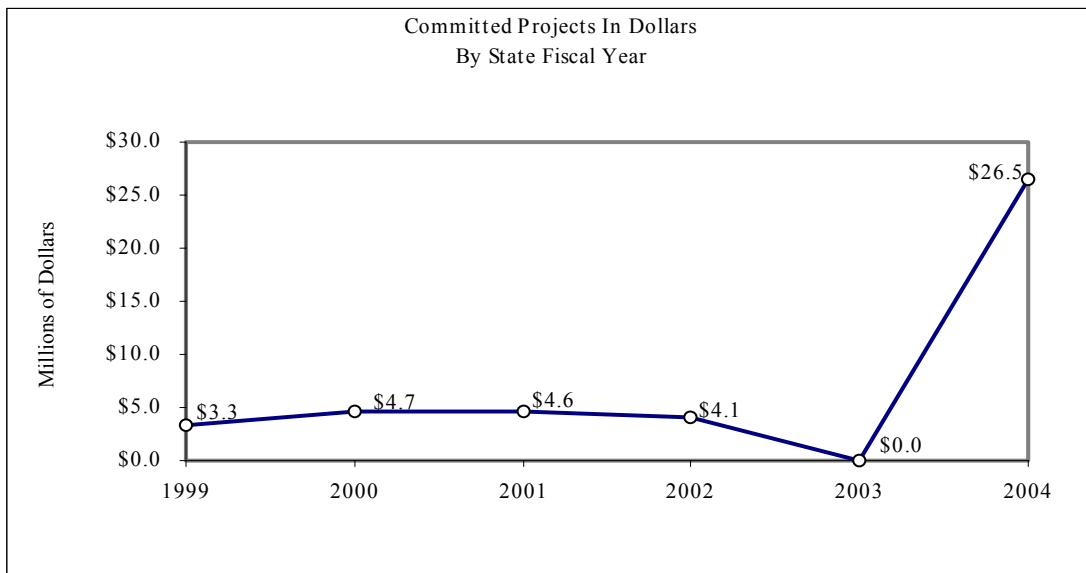
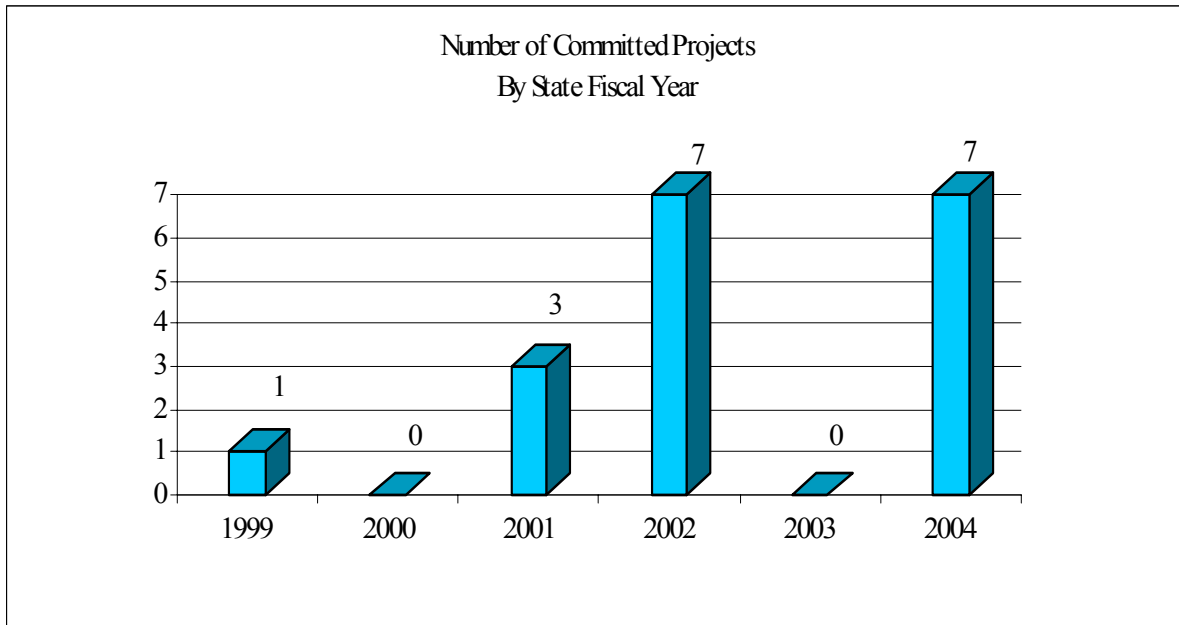


Chart 2 illustrates the number of loan commitments made per state fiscal year:

Chart 2



Please also refer to Attachment 1, Committed Projects by State Fiscal Year and Funding Source for detailed transactions.

B. MAJOR INITIATIVES

1. Pursuant to the Act 177/02, as amended by Act 200/03, the 2003 Hawaii State Legislature provided local match funds to the federal capitalization grant in the amount of \$1,611,000.

An overview of the DWTRLF for SFY 2004 includes the following:

- a. Funds withdrawn from the federal Automated Standard Application for Payments (ASAP) system: \$ 2,101,606.22
- b. State match funds for FY 2003 Federal Capitalization Grant provided: \$ 1,611,000.00
- c. State match funds distributed: \$ 591,114.22
- d. Loans executed:

Three Final Loan Agreements:	\$ 2,455,141.00
Seven Interim Loan Agreements:	<u>\$28,673,667.00</u>
Total Loans Executed:	\$31,128,808.00

e. Principal repayments received: \$ 619,755.90

f. Interest repayments received: \$ 169,014.47

2. The award of low-interest DWTRLF loans involves a two-step process. First, an Interim Loan Agreement is prepared and signed based on initial cost estimates, which commits funds for both parties. Second, after project contracts are awarded, a Final Loan Agreement is processed and executed, after which funds can be disbursed.

If there are any changes to the Final Loan Agreement (e.g. an increase or decrease in loan amount, a change in interest rate, etc.), a Supplemental Loan Agreement is prepared and signed. The effective date of the agreement is determined by when the agreement is ready to be routed and signed by all parties.

- a. The following Interim Loan Agreements were processed and executed in SFY 2004:

County Board	Project Description	Project Location	Loan Amount
Kauai	<u>Wailua Homesteads Well No. 3</u> (Work involves two phases, exploratory well drilling and production stage)	Senate District 7 House District 15	\$ 2,439,664.00
Kauai	<u>Ornellas 0.2 MG Tank Refurbish</u> (Work involves refurbishing a concrete water tank and construction of a Chlorination Building, associated site work, landscaping, irrigation, and fence with gate)	Senate District 7 House District 14	\$ 817,433.00
Kauai	<u>Rehabilitate Lihue Steel Tanks 1 & 2</u> (Work involves structural repair and recoating of two steel tanks servicing the Lihue Water System)	Senate District 7 House District 15	\$ 1,243,230.00
Hawaii	<u>Honomu Well "A" (Replace Akaka Falls Spring)</u> (Work involves two phases, exploratory well drilling and production stage)	Senate District 1 House District 1	\$ 1,168,109.00

Honolulu	<u>Kunia Wells II-Nitrate Treatment Facility</u> (Work involves the installation of a nitrate treatment facility)	Senate District 19 House District 41	\$ 6,029,374.00
Honolulu	<u>Waimanalo Well III</u> (Work involves conversion of an exploratory to a production well, with the construction of a road, pipeline connections, control tank, and building)	Senate District 25 House District 51	\$ 2,515,102.00
Honolulu	<u>Ewa Shaft Granular Activated Carbon (GAC) Treatment Facility</u> (Work involves installation of numerous tanks, micron filter units, an in-line acid neutralization system, piping, and 2,000 feet of influent transmission main to GAC contactors)	Senate District 18 House District 35	\$14,460,755.00
<u>TOTAL INTERIM LOAN AGREEMENTS</u>			<u>\$ 28,673,667.00</u>

b. The following Final Loan Agreements were processed and executed in SFY 2004:

County Board	Project Description	Project Location	Loan Amount
Kauai	<u>Rehabilitation of 27" Steel Pipe, Hanapepe-Eleele Water System</u> (Work consists of rehabilitation of existing pipeline)	Senate District 7 House District 16	\$ 691,134.00
Kauai	<u>Replace Pipeline at Hanapepe River Crossing and Control of Slope Failure at Hanapepe Well #3</u> (Work consists of repairing and upgrading existing water infrastructure)	Senate District 7 House District 16	\$ 1,345,040.00

Kauai	<u>Wailua Homesteads Well No. 3</u> (Phase I Construction, involving the exploratory drilling stage of the project)	Senate District 7 House District 15	\$ 418,967.00
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<u>TOTAL FINAL LOAN AGREEMENTS</u>	<u>\$ 2,455,141.00</u>
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- c. There were no DWTRLF projects that were awarded Interim Loan Agreements in previous fiscal years, which continued to be processed for Final Loan Agreements during SFY 2004.

C. GOALS AND ACCOMPLISHMENTS

Safe Drinking Water Act, Section 1452(b) requires the State to prepare a plan identifying the intended uses of the funds in the SRF and describing how those uses support the goals of the SRF program. The Intended Use Plan (IUP) is prepared annually and provides for public comment and review. The primary purpose of the IUP is to identify proposed annual intended uses of the amounts available to the SRF. The secondary purpose of the IUP is to facilitate the negotiation process for the capitalization grant agreement and schedule of grant payments. Therefore, the IUP must be subjected to public comment and review before being submitted to EPA. EPA should receive the IUP no later than the date of the submittal of the capitalization grant application.

As a condition for receiving the SRF EPA Capitalization Grant, the State must agree to promulgate an IUP annually. At year end, in this Annual Report, the State must address its contribution of time and effort in achieving the long-term and short-term goals as established in the IUP for the year.

The Long and Short Term Goals were presented in the Intended Use Plan for FY 2004 which was published on April 1, 2003. The following describes the results relative to these stated goals:

Long-Term Goals:

1. To assist as many water purveyors as possible to attain compliance with State and Federal Drinking Water Regulations through our low interest loan program.

During FY 2004, the program was successful in working with the City and County of Honolulu, Honolulu Board of Water Supply (HBWS) in securing Interim Loan Agreements for three projects with loan amounts totaling \$23,005,231.00. Securing loans with HBWS has finally allowed the program to provide loan funds to all four counties in the State of Hawaii. Currently all of the four major counties are pursuing DWTRLF funding for projects. The ability to work with all the counties will allow the program to assist not only the purveyors, but also a majority of the water systems in the islands.

2. To Maintain the DWTRLF Program in perpetuity.

The DWTRLF program continued a conservative approach to expenditures in FY 2004 ensuring the perpetuity of the program. The four percent set-aside does not provide adequate coverage to maintain the administrative needs in perpetuity so the program assesses fees to each loan to supplement the administrative demands.

3. To develop a linked deposit or other program to assist in financing improvements to privately owned public water systems.

The DWTRLF program researched the linked deposit program where program funds would be deposited into financial institutions, and in turn the financial institutions would conduct the financial capability review and process the loans with the private water systems. The DWTRLF program worked on and revised the Hawaii Revised Statutes (HRS) to authorize a linked deposit program. Under further review it was however noted that Hawaii Revised Statutes, Chapter 38.3 also requires that as a condition of receipt of the monies to be loaned, the financial institution has to set aside a dollar for dollar reserve. Based on the requirement for the financial institution to set aside funds, the low interest rate situation and the limited water systems that would borrow funds, and the concerns that the DWTRLF program has with the County loan agreements, the DWTRLF program has decided to postpone pursuing the linked deposit program at this time.

Short-Term Goals:

1. Continue development of a system to track the currently required tracking items which may include accounting, management, set-asides, compliance and customer service concerns.

The DWTRLF staff continues to work with the Northbridge Environmental Management Consultants in developing an Access Database program capable of tracking information and providing reports for the DWTRLF program (referred to as the Northbridge database). A main obstacle in the database program development is the broad scope of information which is being combined into one tracking program, such as project and financial information, set aside expenses and related reports. The project information includes engineering and construction information, financial loan information, payments and repayments information; as the nature of the program is to revolve its monies. Additionally, the program spends set-aside funds which do not revolve and each dollar needs to be accounted for in addition to the loan funds being spent. The branches handling the day to day payments use a state purchase order system that is yet to be incorporated into the Northbridge database.

Development and testing continues and each time a new version is sent for review, additional testing and data input is needed to check for bugs. This development and testing will continue until a usable product is completed. The program expects to have a product that will produce reports for maintenance of projects, the DWTRLF program's

Annual Report, and the Drinking Water National Information Management System (DWNIMS), and for use on a regular basis to provide information to management and staff on how to manage the funds.

2. Continue modification of the Functional Procedures to reflect and meet the DWTRLF requirements and needs.

Reviews, revisions, and updates of the Functional Procedures to reflect and meet the DWTRLF program requirements and needs continue throughout the program. The Environmental Review procedure was again revisited and updated as information from EPA was obtained. The program is also working on developing improved forms and samples to be disseminated to applicants and consultants as needed.

3. Continue to integrate the Capacity Evaluation program with the DWTRLF loan program.

The DWTRLF program continues to monitor, discuss, and review the technical, managerial, and financial status and condition of the Counties who are the current customers. Additionally the Safe Drinking Water Branch, through the Capacity Evaluation program, continues to work with several private public water systems to evaluate their technical, managerial, and financial status and condition.

FINANCIAL SECTION

The following is a summary of operations for the fiscal year ended June 30, 2004. The Department of Health (DOH) considers the DWTRLF to be a special revolving fund. The fund was established to receive proceeds from specific revenue sources such as Federal Capitalization Grants, State Capital Improvement Project (CIP) Appropriations for State Match, loan repayments, and interest earnings from investments relating to the fund. Under the DWTRLF, DOH established several accounts (activity codes) for specific revenue sources. These funds are legally restricted for use to fund expenditures for the drinking water infrastructures, allowable costs for the program set-aside activities under the Safe Drinking Water Act, and the administrative costs relating to the operation and maintenance of the DWTRLF Program.

A. INTERNAL CONTROLS

The DWTRLF program is responsible for establishing and maintaining a system of internal accounting controls to ensure compliance with applicable laws and regulations related to federal and state financial assistance programs. The objective of an internal control system is to provide the program with reasonable, but not absolute, assurances that assets are safeguarded against loss from unauthorized use or disposition. It also ensures that transactions are executed and recorded with proper authorization to permit preparation of financial statements in accordance with generally accepted accounting principles.

We believe that the DWTRLF program's internal controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

B. OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The program's financial report consists of the financial statements, notes to the basic financial statements, and other pertinent information described as follows:

1. Financial Statements

The DWTRLF consists of a group of related accounts which allows the program to categorize funds and revenues into specific program activities and objectives. The DWTRLF program uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the DWTRLF are categorized as proprietary funds.

2. Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to fully understanding the financial data.

3. Supplementary Information

In addition to the basic financial statements and accompanying notes, the report also presents other supplemental information. Much of the supplemental information has been requested by EPA and has been gathered and presented in a format that has been agreed to by EPA and the program.

Tables 1 & 2 summarizes and compares the financial position of the DWTRLF program for fiscal years 2003 and 2004.

Financial Analysis of Enterprise Funds

The DWTRLF program's basic financial statements are compiled in an enterprise fund format. Table 1 presents Net Assets and Table 2 presents Revenues, Expenses & Changes in Net Assets.

Summary of Net Assets

Table 1 compares the DWTRLF program's Statement of Net Assets for the fiscal years ending June 30, 2004 and June 30, 2003.

Table 1

State of Hawaii Drinking Water Treatment Revolving Loan Fund		
STATEMENT OF NET ASSETS		
	June 30, 2004	June 30, 2003
ASSETS		
Current Assets		
Cash in State Treasury (note B)	\$ 12,108,106.25	\$ 10,673,734.99
Due from other fund - 376 PWSSP	205,000.00	300,000.00
Due from other fund - 351 ERO Drinking Water	15,000.00	33,000.00
Due from other Fund - 377 Ground Water Protection	-	50,000.00
Due from other Fund - 352 Ground Water Protection	-	12,000.00
Accrued Interest Receivable (note D)	40,388.05	32,364.69
Accrued Interest Receivable from Investment (note D)	4,628.20	-
Accrued Loan Fee Receivable (note D)	104,784.83	74,029.72
Due from federal government	594,447.31	451,440.79
Due from federal government - Non SRF	615,499.69	-
Current maturities of loans receivable (note D)	730,131.31	573,652.24
Total Current Assets	14,417,985.64	12,200,222.43
Loan Receivable (note D)	12,868,916.64	10,650,624.33
Other Assets		
Office Equipment	541,238.13	581,395.48
Less: Accumulated Depreciation	(282,339.60)	(266,634.49)
Total Office Equipment	258,898.53	314,760.99
Transportation Equipment	47,233.06	47,233.06
Less: Accumulated Depreciation	(47,233.06)	(47,233.06)
Total Transportation Equipment	-	-
Total Other Assets	258,898.53	314,760.99
TOTAL ASSETS	\$ 27,545,800.81	\$ 23,165,607.75
LIABILITIES & NET ASSETS		
Liabilities		
Current Liabilities		
Payroll payable	\$ 12,823.08	\$ 7,739.12
Accounts Payable	-	-
Total Current Liabilities	12,823.08	7,739.12
Net Assets		
Invested in capital assets	258,898.53	314,760.99
Restricted	27,274,079.20	22,843,107.64
Unrestricted	-	-
Total Net Assets	27,532,977.73	23,157,868.63
TOTAL LIABILITIES AND NET ASSETS	\$ 27,545,800.81	\$ 23,165,607.75

Restricted net assets totaled \$27,274,079.20 at the end of FY 2004. This balance primarily consisted of cash equivalents, investment and loan interest receivable, loan principal payments due in 2005, and other receivables. The two most significant sources of non-operating revenue were contributions received from the State Appropriation Act 200/03 of \$1,611,000.00 and the federal contribution totaling \$2,860,112.43.

Summary of Changes in Fund Net Assets

Table 2 compares the revenues, expenses, and changes in net assets of the DWTRLF program for the fiscal years ending June 30, 2004 and June 30, 2003.

Table 2

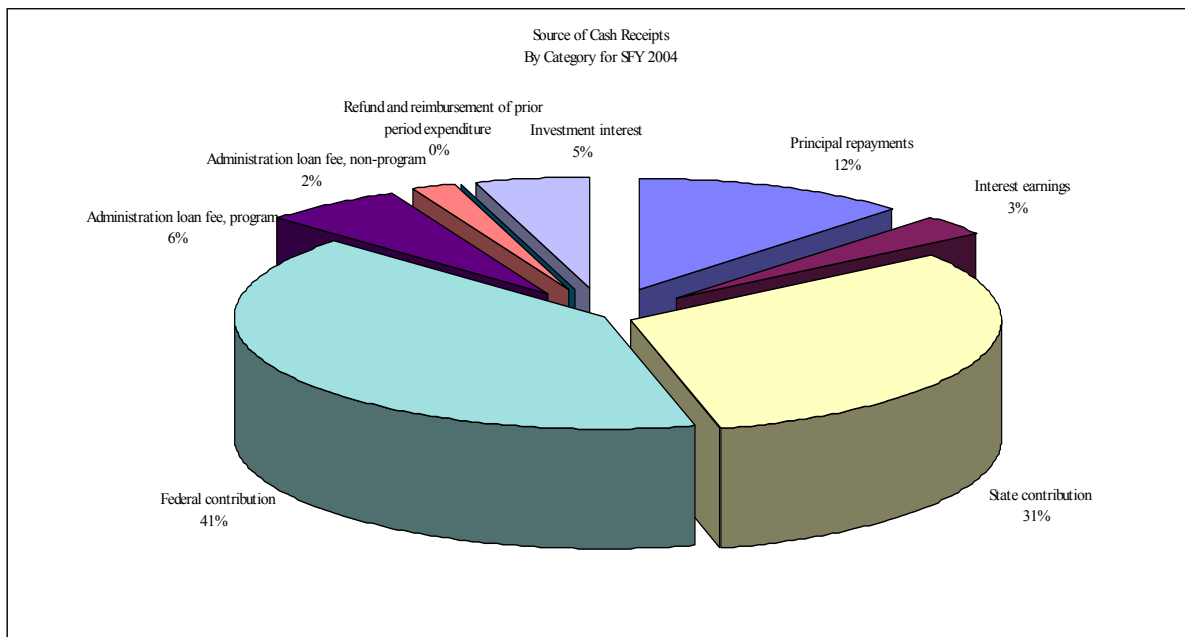
State of Hawaii Drinking Water Treatment Revolving Loan Fund STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS		
	June 30, 2004	June 30, 2003
Revenues		
Interest earnings from Loans (note B)	\$ 176,833.53	\$ 158,725.74
Administration loan fee earnings (note B)	417,846.46	371,478.42
Total Revenues	<u>594,679.99</u>	<u>530,204.16</u>
Expenses by Program Activities:		
Administrative Cost - 4% set-aside	30,044.26	188,999.31
Admin. Technical Assistance - 4% set-aside	(498.83)	-
State Program Management - 10% set-aside	303,930.62	221,585.78
Source Water Protection - 10% set-aside	-	-
Capacity Development - 10% set-aside	-	88.00
Operator Certification - 10% set-aside	4,095.00	5,119.40
Water Protection Program - 15% set-aside	162,416.06	185,587.03
Wellhead Protection Program - 15% set-aside	29,279.32	(1,430.00)
Technical or Financial Assistance - 15% set-aside	148,600.00	158,420.00
Admin Loan Fee - Program	238,221.66	13,051.20
Admin Loan Fee - Non Program	42,368.85	70,713.43
Small Systems Technical Assistance - 2% set-aside	-	1,858.03
Total Expenses	<u>958,456.94</u>	<u>843,992.18</u>
EXPENSES (OVER)/UNDER REVENUES	<u>(363,776.95)</u>	<u>(313,788.02)</u>
Non-operating Revenues		
Federal contribution	2,860,112.43	3,182,157.30
State matching contribution	1,611,000.00	1,551,000.00
Interest earnings from Investment (note B)	267,653.62	239,320.48
Inter-Government Fund Transfer	120.00	320.00
Total Non-operating Revenues	<u>4,738,886.05</u>	<u>4,972,797.78</u>
EXCESS REVENUES OVER EXPENSES	<u>4,375,109.10</u>	<u>4,659,009.76</u>
Net assets at July 1, 2003 and 2002	23,157,868.63	18,498,858.87
Net assets at June 30, 2004 and 2003	<u>27,532,977.73</u>	<u>23,157,868.63</u>

Interest earnings from investments of the DWTRLF's cash in the State of Hawaii treasury and accrued investment interest generated \$267,653.62 in FY 2004. The total interest earnings from investments increased by \$28,333.14 as compared to the amount earned in FY 2003 (Table 2).

Note: Hawaii Revised Statutes Section 38-3 requires collateralization of all public funds, except to the extent that the deposit at each financial institution is insured under the laws of the United States. Acceptable securities include: bonds, notes, bills and certificates of indebtedness of the United States or its agencies; bond notes or other indebtedness of the State of Hawaii or its counties or any other state or county of the United States; and any asset of the depository eligible to secure advances from the Federal Reserve Bank in an amount equal to their market value but not to exceed par value.

Chart 4 below shows the sources of cash received for the FY 2004.

Chart 4



In FY 2004, the DWTRLF received \$291,237.27 in program income administration loan fees and \$95,854.08 in non-program income administration loan fees. The program income administration loan fees were collected from federally funded loan portfolios. The non-program income administration loan fees were collected from state funded loan portfolios.

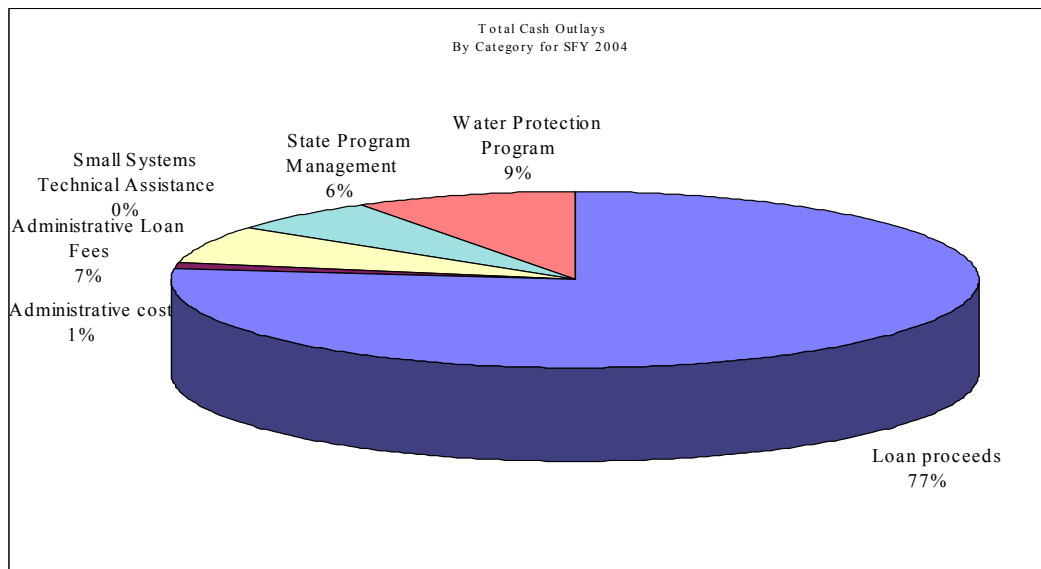
Total federal contribution received from the EPA in FY 2004 totaled \$2,101,606.22. This was \$1,080,551.08 lower than the previous year. Beginning in 2001, capitalization grant receipts were required to be recorded as revenue rather than as contributed capital as in previous years. Two major factors contribute to the amount of grant revenue received. First is the number and size of loans made by the program during the year. The second factor is the timing of payment requests submitted by borrowers for project cost reimbursements. Each payment request generates a draw from the DWTRLF program's EPA Drawdown (ASAP) system.

Please refer to the notes to the basic financial statements for an explanation of the set-aside programs funded by the DWTRLF. These programs directly fund costs incurred for special programs to aid the improvement of safe drinking water systems. As program costs are incurred, EPA grant funds are drawn for those specific purposes. The activity in these set-aside programs is gaining momentum and the Federal contribution for 2004 totaled \$292,640.47.

The State does not contribute any funds for the cost of administering the DWTRLF Program. On May 17, 2000, DOH implemented a loan fee program to generate revenue for the cost of administering the DWTRLF Program and the drinking water related programs. This cost includes the salaries and benefits of the employees. Currently, the program expenses administrative loan fee income for activities only related to the DWTRLF. The DOH does not charge any indirect costs to the DWTRLF such as costs incurred from supporting activities of the State DWTRLF.

The DWTRLF program disbursed \$2,994,527.28 from loan proceeds during FY 2004. As of June 30, 2004, the program expenditures (cash outlays) were: \$26,491.59 for administrative cost of operating the DWTRLF program (4% Set-Aside), \$277,976.99 for administrative loan fee activities, \$238,179.53 for the State Program Management (10% Set-Aside), and \$354,862.41 for the Water Protection Program (15% Set-Aside). Chart 5 below shows the significance of loan proceeds in relation to all costs associated with the DWTRLF's operations.

Chart 5



Administration (4%)

The federal law requires that the DWTRLF program be operated in perpetuity. Because the State does not contribute any funds to the cost of administering the DWTRLF program and its supporting activities, the program implemented loan fees in FY 2000 to help pay for the cost of administering the DWTRLF program. The cost to administer the DWTRLF program activities for FY 2004 was \$304,468.58. Of this amount, \$26,491.59 was paid by federal cap grant funds; \$235,959.20 was paid by program loan fees; and \$42,017.79 was paid by non-program loan fees.

The program completed a priority list, developed the Intended Use Plan, and prepared the capitalization grant application. The highlights of the program activities are listed as follows:

1. The program continued to service eighteen project loans.
2. The program reviewed planning documents (including the preliminary engineering reports, plans and specifications, environmental assessment documents, and federal requirement documents) for nine projects.
3. The program conducted three construction inspections of ongoing DWTRLF projects under construction.

Small Systems Technical Assistance (2%)

Although no funds were expended in FY 2004 for small systems technical assistance, extensive time and effort was put forward to develop a contract to provide training to small water systems using the 2% monies starting in FY 2005 and continuing for 5 years. The contractor will be required to contact a list of systems over the course of the contract period and provide hands on training in technical, financial, and managerial areas to systems in need of assistance. The contract will use approximately \$650,000 from this fund and is scheduled to begin in November 2004. The circuit rider program will also implement a “hot line” via either telephone or e-mail to provide operators with an avenue to obtain help when needed.

State Program Management (10%)

The Safe Drinking Water Act Amendments of 1996 provided that up to ten percent of the DWTRLF Capitalization Grant could be used for State Program Management. These funds were generally delegated to support four major activities.

1. Source Water Protection Program

Hawaii was able to complete its source water assessments in FY 2004 through a contract with the University of Hawaii’s Water Resources Research Center. Under this contract, delineations for approximately 450 groundwater sources were completed and

surveillance for potentially contaminating activities within those areas were performed. Upon completion of the assessments, the information was disseminated to the water purveyors through meetings on the major islands in the state. Public informational meetings will also be held on all the major islands in FY 2005.

2. Public Water System Supervision Program

The Hawaii Public Water System Supervision Program made substantial progress in FY 2004 in the areas of rule development and primacy package submittal, as well as improving our sanitary survey compliance. The program was able to submit primacy packages for the Consumer Confidence Report, public water system definition, administrative penalty authority, the Phase II/V SOC/IOC Rule, and the Lead and Copper Rule Minor Revisions.

In addition, the program made substantial progress on the integration into state regulations of the LT1 Enhanced Surface Water Treatment Rule, Filter Backwash Recycling Rule, the Public Notification Rule, and the Arsenic Rule. The program will be guiding the revisions through the rule-making process during FY 2005.

The program conducted 29 sanitary surveys during FY 2004. In addition the program contracted for the sanitary survey of the Honolulu Board of Water Supply, Honolulu/Windward/Pearl Harbor water system. This system is the state's largest public water system consisting of hundreds of source, storage, and booster pump facilities. Though initiated in FY 2004, the contract extends into FY 2005.

The program expended significant resources to deal with complaints from the upcountry Maui area. These complaints claimed that corrosion control agents used to prevent lead leaching into drinking water from pipes and piping material were causing skin irritation. This cause/effect has not been reported by any other water system in the nation to our knowledge, which opens the possibility that some other factor is the actual cause of the problem. In addition, a relatively small percentage of the total population served have reported this reaction. A change in the corrosion control agent by the Maui Department of Water Supply has not eliminated the complaints. This issue has been highlighted with public meetings, work with a citizen's group, coordination with the Department of Water Supply and Maui Mayor's Office and more. Additional work on this issue is anticipated.

The program achieved an exceptionally high level of compliance during FY 2004 with its public water systems incurring only a single TCR violation and violating an MCL of a state regulated chemical 1,2,3-Trichloropropane (TCP). The Program continues to work with two systems that have failed to achieve compliance with surface water treatment requirements.

The program continued to provide certification reviews for laboratories performing safe drinking water analyses.

3. Capacity Development Program

The program's capacity development program efforts for FY 2004 were concentrated in the Training Contract and the Technical Assistance Contract described in the section on Local Assistance to Public Water Systems and the Circuit Rider contract described in the Small System discussion. Another program effort includes the establishment of a contract with the University of Hawaii's Outreach College to establish an ongoing training program for water system operators. This contract used funding from the Operator Expense Reimbursement Grant to begin the program and calls for the college to continue offering classes for recertification of operators.

4. Operator Certification Program

The SDWB continues to administer an operator certification program for water treatment plant operators and distribution system operators.

From July 1, 2003 to June 30, 2004, the Board of Certification of Operating Personnel in Public Water Systems met four times. During this period:

- 66 Applications were received for certification review.
- 24 Persons were tested for the WTPO certification (Examinations were held on July 29, 2003 and January 27, 2004).
- 57 Persons were tested for the DSO certification. (Examinations were held on October 28, 2003 and April 27, 2004).
- 9 Reciprocal certifications were issued.
- 19 Persons passed the WTPO certification examination.
- 20 Persons passed the DSO certification examination.
- 189 WTPO certifications were active as of June 30, 2004.
- 332 DSO certifications were active as of June 30, 2004.
- 28 Public water systems required to have level 1 certified water treatment plant operators by the level of the plant.
- 8 Public water systems required to have level 2 certified water treatment plant operators by the level of the plant.
- 5 Public water systems required to have level 4 certified water treatment plant operators by the level of the plant.
- 127 Public water systems with at least one distribution system operator certified at the level of the distribution system of the water system.

Local Assistance and Other State Programs (15%) [Water Protection Program]

The two major contracts that were issued in FY 2002 ended in FY 2004.

Training Contract

This three-year contract (July 2001 to June 2004) provided water system operator training continuing education through the Rural Community Assistance Corporation (RCAC). Through this contract, the SDWB was able to provide training on all islands to management personnel, as well as water treatment and distribution system operators. For managers, courses covered topics including safety, liability, emergency response, TMF, and future regulations. For operators, subjects included treatment technologies, process monitoring and control, pump operation, cross-connection control, water audits, and preventive maintenance. This contract satisfactorily provided the re-certification training needs for four hundred sixty (460) DSOs and WTPOs in the State.

Technical Assistance Contract

This contract was originally for two years (July 2001 to June 2003). However, difficulties were encountered in identifying five water systems willing to participate in the program; therefore, the contract was extended to December 2003. The contract called for the provision of 200 hours of training in areas where the water system was identified to be deficient. This contract was not as successful as hoped due to a lack of enthusiasm on the part of the water systems. Managers in some systems failed to take full advantage of the assistance offered. This in part is attributed to the potential costs of improving TMF capacity.

C. OTHER INFORMATION

This report was prepared in accordance with the Generally Accepted Accounting Principles (GAAP) and Reporting Requirements requested by EPA.

Independent Audit: The accounting firm, Grant Thornton LLP, was selected by the DOH to perform the financial audit of the DWTRLF Program. Although the activities and financial statements for fiscal year 2004 are unaudited as of the date of this report, Grant Thornton LLP did perform an annual financial audit of the DWTRLF Program for FY 2003. The auditor's report on the FY 2003 DWTRLF financial statements was published on October 22, 2003. On page 22 of the audit report, it reads, "In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the Fund's compliance with the 1:1 state match requirement for State program management activities, and except for the noncompliance described in the preceding paragraph, the State of Hawaii Drinking Water Treatment Revolving Loan Fund complied, in all material respects, with the requirements governing types of service and types of costs allowed or unallowed; matching; level of effort or earmarking requirements; special reporting requirements; special tests or provisions, and claims for advances and reimbursements that are applicable to its major Federal financial assistance program for the year ended June 30, 2003." The auditor's report on the DWTRLF financial statements for FY 2004 will be published sometime in November 2004.

Program information: For any further information regarding this report, please contact the Wastewater Branch at (808) 586-4294 or Safe Drinking Water Branch at (808) 586-4258.

ATTACHMENT 1

**COMMITTED PROJECTS BY STATE FISCAL YEAR
AND FUNDING SOURCE**

State of Hawaii
Drinking Water Treatment Revolving
Loan Fund
Committed Projects by State Fiscal Year and Funding Source

Page 1 of 2

June 30, 2004

				← Source of Loan Funds →							
Binding Commitment Date		Project Description		Final Agr Date	Rate	Loan Amount	420 Federal SRF	421 State SRF	422 Principal from Repayment	423 Interest from Repayment	424 Interest from Investment
FY99:	3/23/1999	*	213-0001	Kamole Water TP		N/A	3,316,379.00 ^	2,020,135.00 ^	1,296,244.00 ^		
FY00:	11/15/1999	**	213-0001	Kamole Water TP		4.80%	4,653,200.00 ^	2,834,444.00 ^	1,818,756.00 ^		
FY01:	9/15/2000	1	213-0001	Kamole Water TP		1.55%	(129,492.00)	(129,492.00)			
	11/15/2000	3	130-0001	Waimea TP Upgrades-Ph. II	7/15/2001	1.37%	739,210.00	739,210.00			
	11/15/2000	3	101-0001	Saddle Road Well "A"	10/15/2001	1.37%	2,198,992.00	2,198,992.00			
	11/15/2000	3	410-0001	Dam. Repairs to Kokolau Tun.	7/15/2001	1.37%	1,755,329.00	1,317,901.00	437,428.00		
FY02:	7/15/2001	6	410-0001	Dam. Repairs to Kokolau Tun.		1.37%	-	412,474.00	(412,474.00)		
	7/15/2001	3	133-0001	Kukuihaele Well "A"	4/15/2002	1.01%	365,285.00	292,424.00	72,861.00		
	7/15/2001	3	139-0001	Makapala Well	4/15/2002	1.01%	246,355.00	197,218.00	49,137.00		
	7/15/2001	3	109-0001	Pahala Well "B"	4/15/2002	1.01%	375,677.00	300,743.00	74,934.00		
	7/15/2001	3	107-0001	Kaieie Mauka	4/15/2002	1.01%	421,129.00	337,014.00	84,115.00		
	7/15/2001	3	406-0001	Kekaha Well	4/15/2002	1.01%	1,097,536.00	877,066.00	220,470.00		
	10/15/2001	4	101-0001	Saddle Road Well "A"		1.37%	(481,612.00)	(481,612.00)			
	5/15/2002	3	404-0001	Rehab., Hanapepe-EEleele WS	7/15/2003	0.99%	691,134.00	552,301.00	138,833.00		
	5/15/2002	3	404-0002	Replace Pipeline at Hanapepe	7/15/2003	0.99%	1,345,040.00	1,074,852.00	270,188.00		
FY03:	NONE										
FY04:											
	7/15/2003	6	404-0001	Rehab., Hanapepe-EEleele WS		0.99%	-	977.00	(977.00)		
	7/15/2003	6	404-0002	Replace Pipeline at Hanapepe		0.99%	-	1,903.00	(1,903.00)		
	7/15/2003	2	413-0005	Ornellas 0.2 MG Tank Ref.		0.58%	817,433.00	654,386.00	163,047.00		
	7/15/2003	2	410-0005	Reh. Lihue Steel Tanks 1 & 2		0.46%	1,243,230.00	963,852.00	279,378.00		
	7/15/2003	3	413-0002	Wailua Homesteads Well No. 3	3/15/2004	0.54%	418,967.00	418,967.00	-		
	12/15/2003	1	410-0001	Dam. Repairs to Kokolau Tun.		1.37%	(92,127.98)	(73,751.87)	(18,376.11)		
	12/15/2003	2	105-0001	Honomu Well "A"		0.41%	1,168,109.00	940,741.00	227,368.00		
	3/15/2004	1	101-0001	Saddle Road Well "A"		1.37%	(107,331.41)	(107,331.41)	-		
	3/15/2004	2	335-0002	Kunia Wells II-Nitrate Tf		0.10%	6,029,374.00	4,818,209.00	1,211,165.00		
	3/15/2004	2	331-0002	Waimanalo Well III		0.10%	2,515,102.00	2,025,548.00	489,554.00		
	3/15/2004	2	335-0003	Ewa Shaft GAC Tf		0.10%	14,460,755.00	11,211,147.00	3,249,608.00		
Grand Total											
										</	

Note: Legend located on page 2

Page 2 of 2

← Source of Loan Funds →

			420	421	422	423	424
	<u>Project Description</u>	<u>Rate</u>	Federal <u>SRF</u>	State <u>SRF</u>	Principal from <u>Repayment</u>	Interest from <u>Repayment</u>	Interest from <u>Investment</u>
Terminated Projects:							
	NONE						

Legend:

Interim Loan Agreement never issued, Binding was based on a Binding Commitment letter for the amount stated.

Interim Loan Agreement never issued, Binding was based on the Final Loan Agreement date.

Kamole Water TP: Initial binding commitments totaled \$7,968,579, with 39.09% of this amount made up of state match funds (\$3,115,000 from 421). This total initial binding amount was executed by two separate transactions, \$3,316,379 with 39.09% (\$1,296,244) made up of state match funds and \$4,653,200 also made up of 39.09% of state match funds (\$1,818,756).

Supplemental Loan Agreement to the Primary Loan Agreement.

Interim Loan Agreements.

Final Loan Agreements executed using the Interim Loan Agreement Binding Commitment Date.

Final Loan Agreement executed, however, the actual loan amount was lower than the amount shown in the Interim Loan Agreement.

Final Loan Agreement executed, however, the actual loan amount was higher than the amount shown in the Interim Loan Agreement.

Final Loan Agreement executed, however, the actual loan amount is the same as the amount shown in the Interim Loan Agreement.

ATTACHMENT 2

DWTRLF PROGRAM FINANCIAL REPORT

FINANCIAL STATEMENTS

STATE OF HAWAII
DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)

June 30, 2004

C O N T E N T S

Page No.

FINANCIAL STATEMENTS:

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STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS	2
STATEMENT OF CASH FLOWS	3
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State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF NET ASSETS

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
ASSETS		
Current Assets		
Cash in State Treasury (note B)	\$ 12,108,106.25	\$ 10,673,734.99
Due from other fund - 376 PWSSP	205,000.00	300,000.00
Due from other fund - 351 ERO Drinking Water	15,000.00	33,000.00
Due from other Fund - 377 Ground Water Protection	-	50,000.00
Due from other Fund - 352 Ground Water Protection	-	12,000.00
Accrued Interest Receivable (note D)	40,388.05	32,364.69
Accrued Interest Receivable from Investment (note D)	4,628.20	
Accrued Loan Fee Receivable (note D)	104,784.83	74,029.72
Due from federal government	594,447.31	451,440.79
Due from federal government - Non SRF	615,499.69	
Current maturities of loans receivable (note D)	730,131.31	573,652.24
Total Current Assets	<u>14,417,985.64</u>	<u>12,200,222.43</u>
Loan Receivable (note D)	<u>12,868,916.64</u>	<u>10,650,624.33</u>
Other Assets		
Office Equipment	541,238.13	581,395.48
Less: Accumulated Depreciation	<u>(282,339.60)</u>	<u>(266,634.49)</u>
Total Office Equipment	258,898.53	314,760.99
Transportation Equipment	47,233.06	47,233.06
Less: Accumulated Depreciation	<u>(47,233.06)</u>	<u>(47,233.06)</u>
Total Transportation Equipment	<u>-</u>	<u>-</u>
Total Other Assets	<u>258,898.53</u>	<u>314,760.99</u>
TOTAL ASSETS	<u><u>\$ 27,545,800.81</u></u>	<u><u>\$ 23,165,607.75</u></u>
LIABILITIES & NET ASSETS		
Liabilities		
Current Liabilities		
Payroll payable	\$ 12,823.08	\$ 7,739.12
Accounts Payable	<u>-</u>	<u>-</u>
Total Current Liabilities	12,823.08	7,739.12
Net Assets		
Invested in capital assets	258,898.53	314,760.99
Restricted	27,274,079.20	22,843,107.64
Unrestricted	<u>-</u>	<u>-</u>
Total Net Assets	27,532,977.73	23,157,868.63
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 27,545,800.81</u></u>	<u><u>\$ 23,165,607.75</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Revenues		
Interest earnings from Loans (note B)	\$ 176,833.53	\$ 158,725.74
Administration loan fee earnings (note B)	417,846.46	371,478.42
Total Revenues	<u>594,679.99</u>	<u>530,204.16</u>
Expenses by Program Activities:		
Administrative Cost - 4% set-aside	30,044.26	188,999.31
Admin. Technical Assistance - 4% set-aside	(498.83)	-
State Program Management - 10% set-aside	303,930.62	221,585.78
Source Water Protection - 10% set-aside	-	-
Capacity Development - 10% set-aside	-	88.00
Operator Certification - 10% set-aside	4,095.00	5,119.40
Water Protection Program - 15% set-aside	162,416.06	185,587.03
Wellhead Protection Program - 15% set-aside	29,279.32	(1,430.00)
Technical or Financial Assistance - 15% set-aside	148,600.00	158,420.00
Admin Loan Fee - Program	238,221.66	13,051.20
Admin Loan Fee - Non Program	42,368.85	70,713.43
Small Systems Technical Assistance - 2% set-aside	-	1,858.03
Total Expenses	<u>958,456.94</u>	<u>843,992.18</u>
EXPENSES (OVER)/UNDER REVENUES	<u>(363,776.95)</u>	<u>(313,788.02)</u>
Non-operating Revenues		
Federal contribution	2,860,112.43	3,182,157.30
State matching contribution	1,611,000.00	1,551,000.00
Interest earnings from Investment (note B)	267,653.62	239,320.48
Inter-Government Fund Transfer	120.00	320.00
Total Non-operating Revenues	<u>4,738,886.05</u>	<u>4,972,797.78</u>
EXCESS REVENUES OVER EXPENSES	<u>4,375,109.10</u>	<u>4,659,009.76</u>
Net assets at July 1, 2003 and 2002	23,157,868.63	18,498,858.87
Net assets at June 30, 2004 and 2003	<u><u>27,532,977.73</u></u>	<u><u>23,157,868.63</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Interest income from loans	\$ 169,014.47
Admin Loan Fees	387,091.35
Principal repayments on loans	619,755.90
Disbursement of loan proceeds	(2,994,527.28)
Personnel costs	(297,434.99)
Payments to vendors	(572,637.34)

Net cash flows used in operating activities	(2,688,737.89)
---	----------------

Cash flows from noncapital financing activities:	3,887,726.22
--	--------------

Net cash flows provided by noncapital financing activities	3,887,726.22
--	--------------

Cash flows from capital and related financing activities:

Purchase of equipment	(27,438.19)
-----------------------	-------------

Net cash flows provided by investing activities	(27,438.19)
---	-------------

Cash flows from investing activities:

Interest from investments	262,821.12
Net cash flows provided by investing activities	262,821.12

NET INCREASE IN CASH	1,434,371.26
----------------------	--------------

Cash Balance at July 1, 2003	10,673,734.99
------------------------------	---------------

Cash Balance at June 30, 2004	\$ 12,108,106.25
-------------------------------	------------------

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ (363,776.95)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	83,300.65
Changes in assets and liabilities:	
Increase in interest receivable on loans	(7,819.06)
Increase in administrative fee receivable on loans	(30,755.11)
Increase in accrued salaries and other admin.	5,083.96
Other operating cashflows:	
Principal repayments	619,755.90
Loan proceeds	(2,994,527.28)
Net cash provided by operating activities	\$ (2,688,737.89)

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - ESTABLISHMENT AND PURPOSE OF THE DWTRLF

The 1996 Amendments of the Safe Drinking Water Act (the Act) authorizes the Environmental Protection Agency (EPA) to make capitalization grants to states for the purpose of providing loans and other types of financial assistance to public water supply systems for drinking water infrastructure. The Act authorizes loan funding for construction of public drinking water systems. Under the Act, the State of Hawaii (State) will receive up to \$54 million of Safe Drinking Water State Revolving Fund capitalization grants until the year 2003.

The 1997 State Legislature established a Drinking Water Treatment Revolving Loan Fund (DWTRLF) to receive the federal capitalization grants. The DWTRLF is intended to provide loans in perpetuity to public drinking water systems for the construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years, with the first repayment of principal and interest occurring no later than one year after the notice to proceed for construction or the final agreement date, whichever is later.

The DWTRLF includes the operations of the Drinking Water Treatment Revolving Loan Funds and the Set-Asides Program Funds. The Set-Aside Programs account for Safe Drinking Water set asides which includes administrative grant proceeds.

Set Asides

The Safe Drinking Water Act allows the states to “set aside” up to thirty-one percent (31%) of the annual capitalization grant for prevention programs and administration. 1. Up to fifteen percent (15%) (no more than 10% for any one purpose) may be used for prevention projects in water system, including source water protection loans, technical and financial aid for capacity, source water assessments, and wellhead protection. 2. Up to four percent (4%) may be used for administrative costs for loan service. 3. Up to ten percent (10%) may be used to run the State’s public water system supervision program. 4. Finally, up to two percent (2%) may be used for operator training and technical assistance to aid small community systems.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE B - ACCOUNTING POLICIES

1. Financial Statement Presentation

The financial statements are intended to present the financial position and results of operations of only that portion of the funds of the Department of Health, State of Hawaii that is attributable to the transactions of the DWTRLF.

The accompanying financial statements of the DWTRLF have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. This Statement established new financial reporting requirements for state and local governments in the United States of America. It requires new information and restructuring of much of the information that governments have presented in the past. The Department implemented these standards for the fiscal year ended June 30, 2002.

Other GASB Statements are required to be implemented in conjunction with Statement 34. Therefore, the Department has implemented the following GASB Statements: Statement 36, Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments: Omnibus and Statement 38, Certain Financial Statement Note Disclosures.

2. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds have the option under GASB 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, to elect to apply all Financial Accounting Standards Board (FASB)

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE B - ACCOUNTING POLICIES (continued)

pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The DWTRLF has elected to not apply FASB statements after the applicable date.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the DWTRLF are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds, and interest income from investments are reported as nonoperating income.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally, it is management's policy to use restricted resources first, then unrestricted resources as they are needed.

3. Capital Assets

Capital assets, which include property and equipment, are reported in financial statements. Equipment must be capitalized if the cost is in excess of \$1,000 and the useful life exceeds one year.

Purchased capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Depreciation expense is recorded in the financial statements. The straight-line method is utilized over the assets' estimated useful life. Generally, the useful life used for equipment is three years.

4. Administration Costs

The accompanying financial statements do not reflect certain administration costs incurred which are paid for by other sources of funding from DOH. These costs include the DOH's and State's overhead which the DOH does not assess to the SRF.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE B - ACCOUNTING POLICIES (continued)

5. Fund Accounts

The DWTRLF consists of the State Revolving Fund (SRF) and non-SRF activity. The SRF activity consists exclusively of the state match, federal capitalization grant loans, principal loan repayments, and interest from loans and investments. Non-SRF activity consists of administration loan fees and federal set aside funds.

6. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

All monies of the DWTRLF are deposited into the State Treasury. The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Effective August 1, 1999, cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool System. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that the depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance. Investments can be categorized to give an indication of the level of risk assumed by the DWTRLF. Category 1 includes investments that are insured or for repurchase agreements, collateralized by underlying securities that are so held. Category 2 includes uninsured and unregistered investments for which the broker-dealer in the DWTRLF's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker-dealer but not in the DWTRLF's name.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE D - LOANS RECEIVABLE

At June 30, 2004, the DWTRLF had loans receivable from the following government entities:

Five loans receivable from
County of Kauai, Board of Water Supply; due
in semi-annual payments,
including interest at 0.54% to 1.37%
commencing not later than one year
after project completion, notice to
proceed, or loan agreement date. Final
payment is due not later than twenty years
after project completion. \$ 4,099,201.51

One loan receivable from
County of Maui, Board of Water Supply; due
in semi-annual payments,
including interest at 1.55%
commencing not later than one year
after project completion, notice to
proceed, or loan agreement date. Final
payment is due not later than twenty years
after project completion. \$ 6,445,297.61

Six loans receivable from
County of Hawaii, Water Board; due
in semi-annual payments,
including interest at 1.01% to 1.37%
commencing not later than one year
after project completion, notice to
proceed, or loan agreement date. Final
payment is due not later than twenty years
after project completion. \$ 3,054,548.83

Total \$13,599,047.95

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE D - LOANS RECEIVABLE (continued)

Loans mature at various dates through 2023. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2005	\$ 730,131.31
SFY2006	\$ 739,087.26
SFY2007	\$ 749,288.74
SFY2008	\$ 759,445.95
SFY2009	\$ 770,303.73
Thereafter	<u>\$ 9,850,790.96</u>

\$13,599,047.95

As of June 30, 2004, accrued interest receivable, accrued administration loan fee receivable as program income, and accrued administration loan fee receivable as non-program income on loans totaled \$40,388.05, 86,681.92, and \$18,102.91, respectively.

The program believes that all loans will be repaid according to the loan terms. Accordingly, no provision for uncollectible amounts has been recorded.

As of June 30, 2004, the DWTRLF has committed to make additional loans to the following government entities:

County of Kauai, Board of Water Supply	\$ 2,060,663.00
County of Hawaii, Water Board	1,168,109.00
City and County of Honolulu, Board of Water Supply	<u>23,005,231.00</u>
Total	<u>\$26,234,003.00</u>

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE E - FEDERAL FUNDING AND STATE MATCH

The DWTRLF is capitalized by grants from EPA authorized by Title VI of the Act with matching funds from the State. As of June 30, 2004, EPA has awarded \$58,746,600.00 to the State, of which \$14,691,922.84 has been drawn for loans and set asides. The State has legislated matching funds of \$11,749,320.00, of which \$9,649,355.89 has been committed.

The following summarizes the capitalization grants awarded, amounts drawn on each grant, and the balances available for future activity as of June 30, 2004:

Budget Period		Amount	DWTRLF Cash Draws	EPA Draws (deducted prior to issuance of cap grant)	Funds Available
12/05/97 - 09/30/05	97	\$ 12,558,800.00	\$ 11,341,401.76	\$ -	\$ 1,217,398.24
09/24/98 - 09/30/06	98	\$ 7,121,300.00	\$ 2,341,193.22	\$ -	\$ 4,780,106.78
02/04/00 - 09/30/07	99	\$ 7,463,800.00	\$ 1,009,327.86	\$ -	\$ 6,454,472.14
02/26/01 - 06/30/08	00	\$ 7,757,000.00	\$ -	\$ 75,000.00	\$ 7,682,000.00
09/01/02 - 09/30/08	01	\$ 7,789,100.00	\$ -	\$ 24,000.00	\$ 7,765,100.00
10/01/03 - 06/30/11	02	\$ 8,052,500.00	\$ -	\$ -	\$ 8,052,500.00
04/01/04 - 06/30/11	03	\$ 8,004,100.00	\$ -	\$ -	\$ 8,004,100.00
		<u>\$ 58,746,600.00</u>	<u>\$ 14,691,922.84</u>	<u>\$ 99,000.00</u>	<u>\$ 43,955,677.16</u>

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE E - FEDERAL FUNDING AND STATE MATCH (continued)

The following is the State Match for each EPA Capitalization Grant for the DWTRLF.

Federal Fiscal Year	Source of State Funds	20% State Match Amount
97	Act 328/97	\$ 2,511,760.00
98	Act 116/98	\$ 1,424,260.00
99	Act 091/99	\$ 1,492,760.00
00	Act 091/99	\$ 28,400.00
	Act 281/00	\$ 1,523,000.00
	Total 00 Match	\$ 1,551,400.00
01	Act 328/97	\$ 603,240.00
	Act 259/01	\$ 954,580.00
	Total 01 Match	\$ 1,557,820.00
02	Act 177/02	\$ 1,011,500.00
	Act 259/01	\$ 596,420.00
	Act 091/99	\$ 1,840.00
	Act 116/98	\$ 740.00
	Total 02 Match	\$ 1,610,500.00
03	Act 200/03	\$ 1,061,320.00
	Act 177/02	\$ 539,500.00
	Total 03 Match	\$ 1,600,820.00
Total 20% State Match		<u>\$ 11,749,320.00</u>